

September 22, 2010

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MCSO FINANCIAL REVIEW UPDATE

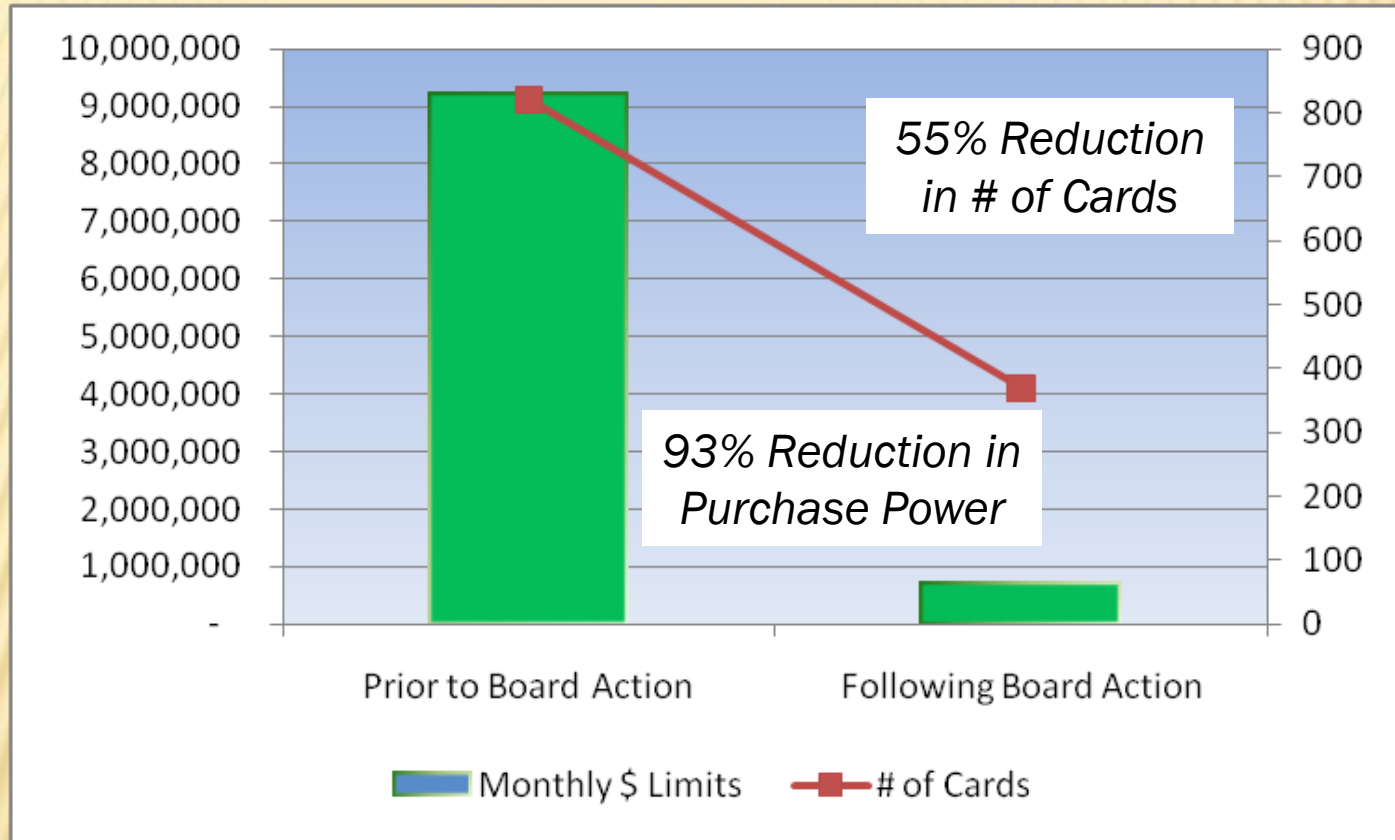
OVERVIEW

- ✖ P Card Update
- ✖ Detention Fund
 - + Refresher on Allowable Uses
 - + History of Recent Events
- ✖ Status of record review
- ✖ Proposed actions:
 - + Detention Fund (MCSO)
 - + Cash Handling
 - + Extradition Policy
 - + Travel

MCSO P CARDS: BEFORE AND AFTER

Prior to Board Action	Following Board Action and Review
Cards issued to non-employees in at least 93 instances	Cards issued to non-employees cancelled and not renewed
Cards issued without system-reinforced restrictions – resulted in fairly regular misuse	Added merchant restrictions to nearly all cards to largely prevent misuse
No formal process to recoup unauthorized expenditures	Cardholders signed acknowledgement that allows County to recoup disallowed expenditures through payroll

RESULTS OF P CARD ACTION (MAY 24)



FY 2009 Monthly Average: \$189k

FY 2010 Monthly Average: \$142k

FY 2011 Monthly Average: \$82k (2 months)

DETENTION FUND REFRESHER

(ALLOWABLE USES, A.R.S. §42-6109)

- ✖ Construction of new adult and juvenile jail facilities.
- ✖ Maintain and operate adult and juvenile jail facilities.
- ✖ Fund the following for the purpose of reducing the expense of adult and juvenile jail facilities:
 - + Implementing an integrated criminal justice information system.
 - + Developing regional centers for courts not of record.
 - + Implementing differentiated case management for criminal cases in superior court.
 - + Consolidating criminal divisions of the superior court in the county to a common location.
 - + Expanding pretrial release supervision.
 - + Implementing electronic monitoring of pre-adjudicated defendants.
 - + Enhancing substance abuse evaluation and programming.
 - + Increasing drug court admissions to include pre-adjudicated defendants and expanding drug court jurisdiction.

SHERIFF ARPAIO'S ENDORSEMENT FOR JAIL TAX

- ✘ “I am responsible for the jails and providing for the security and safety of the staff and inmates in the jail system as well as for the citizens of Maricopa County.”
 - ✘ “...we need more space to house violent offenders.”
 - ✘ “I pledge to you that the new jail will be the most efficient, cost-effective use of the sales tax revenue of any major jail built in the United States.”
- Sheriff Joe Arpaio, letter in support of 1998 jail tax

MISSPENDING: SOURCES OF EVIDENCE

Date	Event	Issue
June 28-29; Dec 11, 2009	MCSO MACE Unit staff question County and Court employees at their homes related to “criminal investigations.”	2 of 16 known employees are paid with restricted Detention Fund. <u>Annual misspending : \$0.1 M</u>
February 2010	In response to Superior Court Order to Show Cause resulting from MCSO’s failure to deliver detainees for scheduled court appearances, MCSO provided list of employees currently assigned to inmate security and transportation.	List only contained 108 names and did not include the names of 197 staff that, according to official payroll system, are assigned to security and transportation. <u>Annual misspending : \$14.7 M</u>

MISSPENDING: SOURCES OF EVIDENCE

Date	Event	Issue
March 5	MCSO attorney Tim Casey files affidavit in Melendres federal court case listing current and former members of Human Smuggling Unit (law enforcement unit)	6 of 25 employees listed are paid with restricted Detention Fund. <u>Annual misspending : \$0.4 M</u>
March 8	MCSO attorney Tim Casey sends letter related to Valenzuela case (racial profiling) listing current and former members of Prop 100 Unit	8 of 17 employees listed are paid with restricted Detention Fund monies. 1 of 17 is paid with restricted Inmate Services monies. <u>Annual misspending : \$0.8 M</u>

Total Estimated Annual Misspending: \$16 MILLION

MISSPENDING: CORROBORATING SOURCE

Date	Event	Issue
<i>April 1, 2010</i>	<i>In partial response to March 30 memo, receive report from Loretta Barkell showing discrepancies between “actual” and “reported” work assignments (one pay period)</i>	<i>Report contains 988 records (roughly 1/3 of staff); 202 instances of apparent misspending of Detention Fund. Annual misspending estimated to be \$14.1 M – similar to estimate above</i>

TOTAL AMOUNT OF MISSPENDING? UNKNOWN

- ✖ Documents indicate that misspending dates back to at least 2006
- ✖ 1 Year: \$16 million
- ✖ 2 Years: \$32 million
- ✖ 3 years: \$48 million
- ✖ 4 years: \$64 million
- ✖ 5 years: \$80 million

EXAMPLE OF RECORD-KEEPING ISSUES

“Although Sheriff’s records often would indicate that a large amount of overtime was charged to my Patrol Bureau during each pay period, I found the records to be incorrect. I finally began keeping a separate record of actual overtime accrued by patrol. On many occasions, Hendershott would question me as to why patrol overtime was so high, and I would then provide my own records...that would correctly indicate the non-patrol assignment where the employee truly worked. These were always specialty units, such investigations, human smuggling or animal cruelty.”

- Memo from Deputy Chief Frank Munnell to Sheriff Arpaio, August 17, 2010
- (Emphasis added)

DOCUMENT REVIEW GOALS

- ✗ Identify SIZE of problem
 - + By quantifying areas of known misspending
- ✗ Prevent FUTURE misspending
 - + By recommending administrative remedies
 - ✗ New or revised policies
 - ✗ Additional controls

STATUS OF DOCUMENT REVIEW

- ✖ November 30, 2009: MCSO refuses to participate in standard audits
- ✖ March 30, 2010: Requested personnel documents via memo
- ✖ April 20, 2010: Second request for personnel documents
- ✖ April 23, 2010: Subpoenaed documents
- ✖ May 20, 2010: MCSO filed suit to prevent production
- ✖ June 25, 2010: Court ruled in Maricopa County's favor
- ✖ July 8, 2010: Received documents (70 boxes)
- ✖ September 15, 2010: Finished review of documents
- ✖ Issues:
 - + MCSO did not fully comply with subpoena
 - + Procurement code and capital freeze violations
 - + Use of outside bank accounts
 - + Inmate cash handling
 - + Extradition travel

MCSO DID NOT FULLY COMPLY WITH FIRST SUBPOENA

- ✗ MCSO failed to provide:
 - + Variances between actual and reported work assignments
 - ✗ Without additional information, must assume the one report received is representative
 - + All P-card documentation
 - ✗ Most travel/training authorization forms missing
 - ✗ Supporting documentation for select staff and expenditures completely missing

SECOND SUBPOENA

- ✘ Asked again for work assignment records and all back-up to P-card records (travel/training request forms)
- ✘ Information on outside bank accounts
- ✘ Information related to IT equipment purchases
- ✘ Information on reimbursement from TLC for the Real Policewomen of Maricopa County

SECOND SUBPOENA - STATUS

- ✖ Met with Interim Chief Deputy and staff on September 17th
- ✖ Narrowed scope
- ✖ Prioritized requests
- ✖ Suggested rolling production of documents
- ✖ Requested electronic documents, when available
- ✖ Meeting was cordial
- ✖ Still awaiting response from MCSO

EXAMPLES OF FINANCIAL RECORDS MCSO FAILED TO PROVIDE

- ✗ The Peabody Orlando (\$1,343)
- ✗ Fry's Electronics (\$1,984 – multiple purchases)
- ✗ Honduras plane tickets and resort stay (\$3,030)
- ✗ Hilton Hotel, Washington D.C. (\$831)
- ✗ Sing High (\$192)
- ✗ Radisson Fort George, Belize (\$236)
- ✗ Best Western Inn of Tempe (\$677)
- ✗ Millennium Alaskan (\$608)
- ✗ Wyndam Hotels Condado, Puerto Rico (\$1,039)

HONDURAS



PUERTO RICO



BELIZE



UNUSUAL EXPENDITURES

- ✖ Sardella's Pizza and Wings (\$741)
- ✖ Hotel room upgrade w/spouse (\$350)
- ✖ Multiple extradition trips for one employee – no receipts (\$62,750)
- ✖ DisneyWorld Yacht Club Resort food and entertainment (\$1,341)
- ✖ First-Class Upgrades (\$400)
- ✖ Portable generator for parade lights on the army tank (\$1,684)
- ✖ The Peabody Orlando (\$1,343)
- ✖ Training conducted by two retired MCSO employees; sole source (\$30,000+)
- ✖ Lodging, food and entertainment for Honduran officials (\$5,414)

DISNEYWORLD YACHT CLUB RESORT

Yacht Club Galley: \$176.57
Rainforest Café: \$131.22
Hurricane Hannah's: \$60.21
Beach Marina: \$225.00
Room Service: \$191.00
Barefoot Bar: \$26.37



Hotel: \$ 874.18
Food, etc.: 1,341.30
Total: \$2,215.48



Yacht Club Tickets: \$220.00
Fittings & Fairings: \$41.28
Ship Shape: \$210.00
ESPN Club Merchandise: \$45.80
Beach Club Marketplace: \$13.85

HONDURAS HOSTING

- ✖ Hosted five members of Honduran National Police for five days
 - + Lodging – Embassy Suites
 - ✖ (\$3,003)
 - + Food and Entertainment
 - ✖ (\$2,411)
 - ✖ Lexus Club (\$387)
 - ✖ Buca di Beppo (\$635)
 - + Airfare (amount unknown)

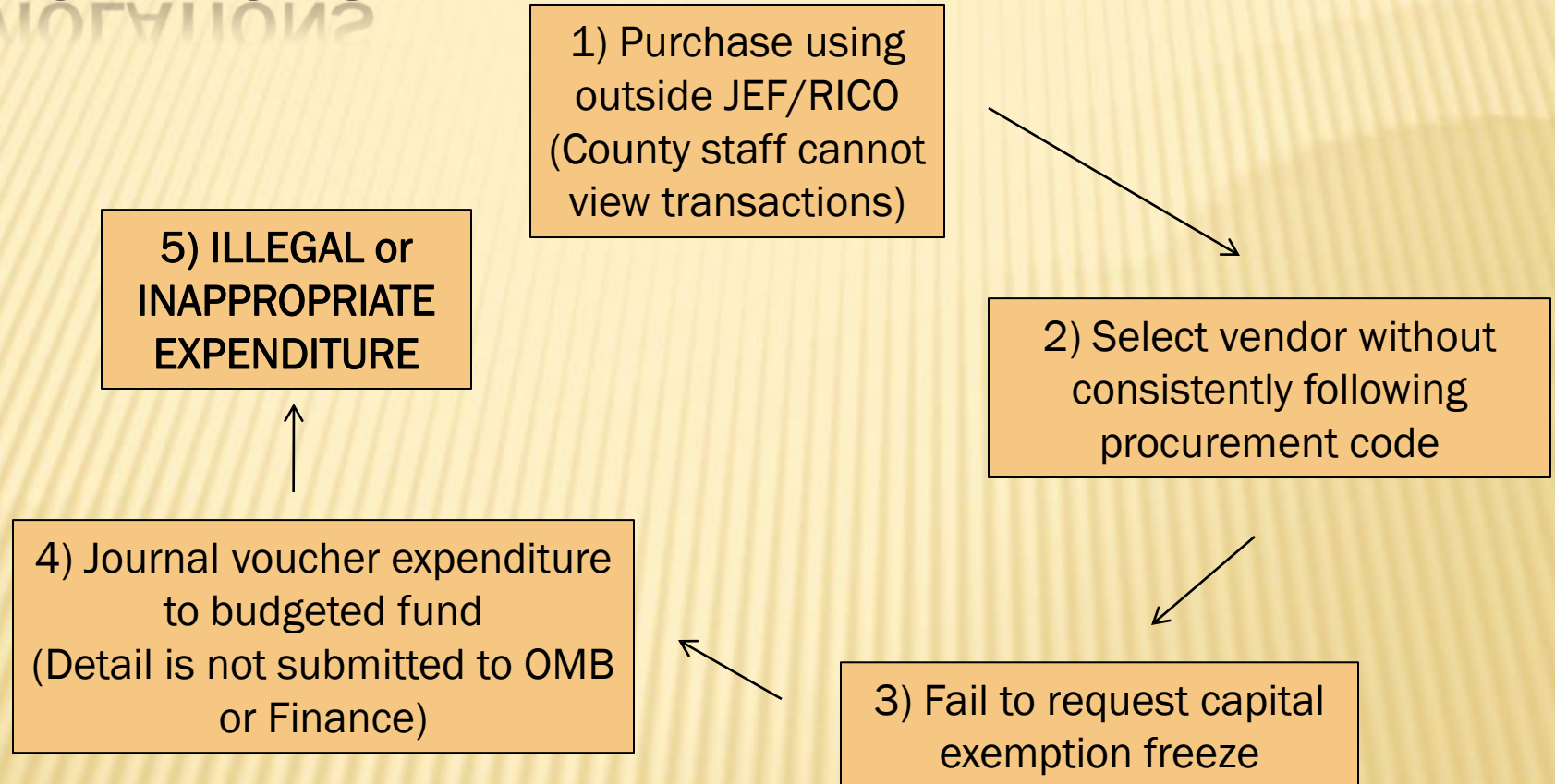


HONDURAS TRAVEL

- ✘ Documents reflect total of ten MCSO staff traveled to Honduras in two trips
- ✘ MCSO report on Honduras project failed to report **GENERAL and DETENTION-FUNDED** staff salaries, benefits and overtime; unclear if airfare and upgrades were included

	July 21-28, 2007	Sept 30 -Oct 26, 2007	Total
Salaries	\$19,355	\$58,154	\$77,509
Overtime	122	3,580	3,702
Airfare	3,719	5,742	9,461
Airfare Upgrades	790	unknown	790
Total	\$23,986	\$67,476	\$91,462

PROCUREMENT CODE AND CAPITAL FREEZE VIOLATIONS



USE OF OUTSIDE BANK ACCOUNTS

- ✘ Transactional information obtained from Bank of America on outside bank accounts
- ✘ Appear to use outside accounts, particularly JEF and RICO, for questionable spending
 - + Multiple vendors with spending above \$5,000 – were quotes obtained?
 - + Questionable purchases
 - ✘ Carriage ride (\$500)
 - + Transfer expenses (summarized) to operating budget
- ✘ Checks signed by unauthorized staff in some instances
- ✘ JEF and RICO outside accounts are being closed

PROCUREMENT CODE AND CAPITAL FREEZE VIOLATIONS

- ✘ Knowingly avoided procurement code and capital freeze for Jail Enhancement and RICO funds
- ✘ Examples of MCSO communication found in review:
 - + “Should we be getting a freeze exemption approval before processing the PO?” “This could be something sensitive that [shouldn’t go] through the County.”
 - + “We are not going to OMB with the exemption request per [the Chief’s] directive.”
 - + “I don’t want JEF or RICO purchases going through the County for any type of approval.”
 - + “Left v/m for Tom asking him to fax quote [on MCI bus], not e-mail.”

JEF AND RICO JOURNAL VOUCHERS

✕ In FY 2010:

- + RICO budget was \$1,155,000
- + Over \$2.5 million in RICO journal vouchers
- + JEF budget was \$2,205,000
- + \$785k in JEF journal vouchers

INMATE CASH HANDLING

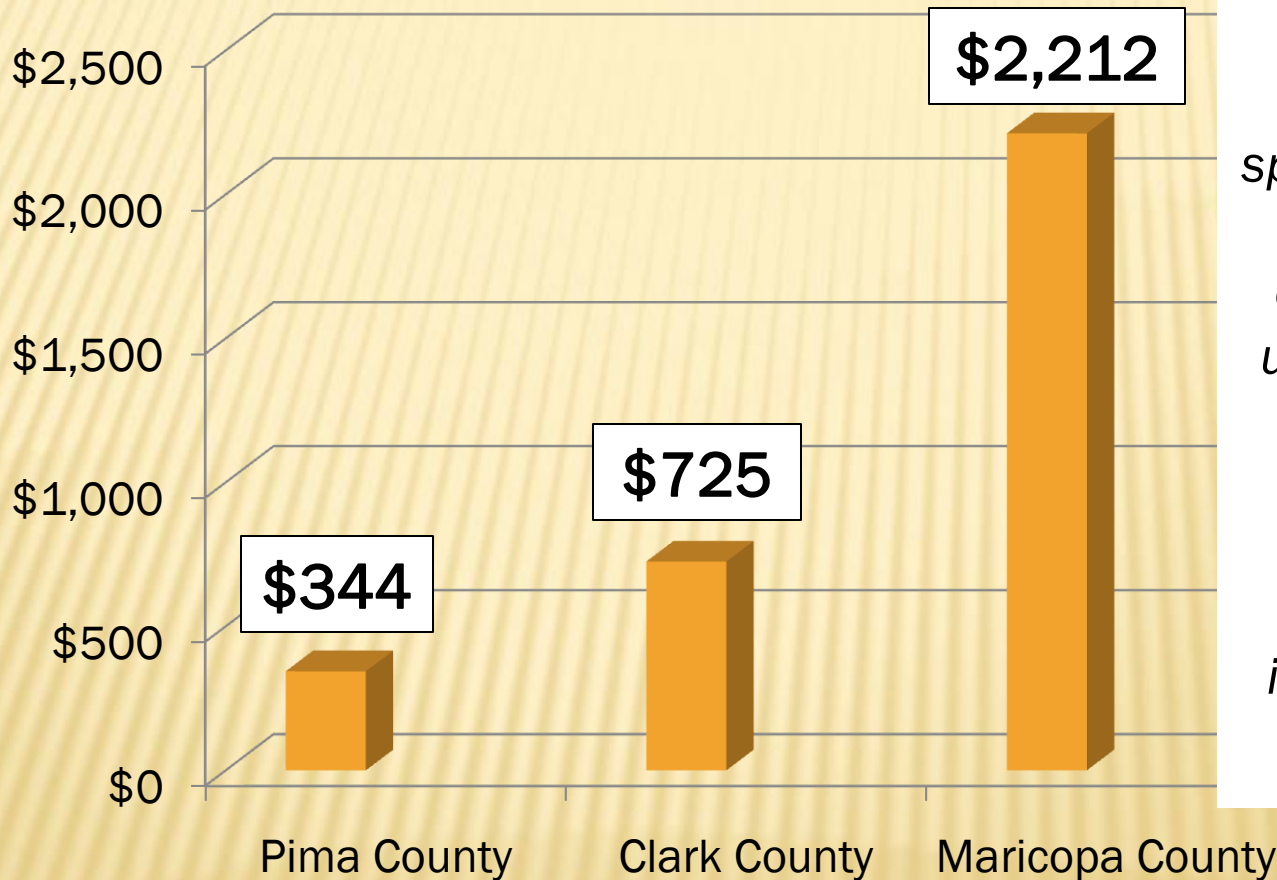
- ✗ Errors in inmate cash accounts occur frequently – dozens of examples
- ✗ Errors are generally deficits, not overages (i.e., missing cash) – range from less than \$1 to several hundred dollars
- ✗ No formal process in place to check for counterfeits
- ✗ Reimburse missing funds from Detention Fund
- ✗ Example:
 - + 12/5/08: “It was determined by Bank of America that MCSO Bonds and Fines deposited a 100 dollar counterfeit... request 100.00 be taken from Operational Budget of the Sims Division.”
 - + Bill could not be tracked to individual – so individual never prosecuted for counterfeit, and presumably **left jail with \$100 of County money**

CASH HANDLING ALTERNATIVE

✖ Pima County

- + Revenue contract with cash handling vendor; no cost to County – actually generates some County revenue
- + Detainees deposit personal money into ATM upon booking; disallows deposits of counterfeit money
- + Deposited electronically to inmate account
- + Detainees can post bail during booking via credit card
- + Family and friends can deposit to detainee accounts and/or post bail over internet
- + Upon release, detainees receive balance of account on debit card
- + **EMPLOYEES NEVER HANDLE CASH; VENDOR ACCEPTS ALL LIABILITY**

EXTRADITION COST COMPARISON



Data is based on extradition spending divided by number of extraditions. Per unit cost would be artificially high if non-extradition spending were charged inappropriately to extradition.

**Values are approximate*

EXTRADITION TRAVEL

✖ MCSO extradition spending

	Personnel	Travel/ Lodging	Other	Total	# of Ext.	Cost/Ext.
2007	\$719,600	\$1,032,287	\$9,546	\$1,761,433	844	\$2,087
2008	736,260	965,247	122,222	1,823,729	738	2,471
2009	475,354	935,737	8,217	1,419,308	683	2,078
Average	\$643,738	\$977,757	\$46,662	1,668,157	755	\$2,212

- ✖ Average airline ticket: \$414; max airline ticket: \$3,064 (CY 2009)
- ✖ Average lodging: \$88; max lodging: \$851 (CY 2009)
- ✖ High-ranking staff (up to deputy chief) have performed extraditions
- ✖ Volunteers have performed extraditions
- ✖ MCSO also has two fixed-wing planes with which they perform extraditions

EXTRADITION OPTIONS

- ✖ Less expensive options are available
 - + Private firms: \$0.90/mile, minimum of \$350, each additional prisoner is \$0.45/mile
 - + Pima, Yavapai, Coconino, and Pinal counties do some or all out-of-state extraditions via private firm
 - + Many surrounding jurisdictions utilize Northwest Shuttle Association – cooperative agreement between various law enforcement agencies
 - + Contract with airlines and/or hotels for volume discounts
- ✖ No other jurisdictions surveyed send high-ranking staff or volunteers on extraditions

PROPOSED ACTIONS

PROPOSED ACTION: DETENTION FUND

- ✘ By October 31, ensure that restricted funds are used for allowable purposes, only, through the following actions:
 - + Require pre-approval of all non-routine journal vouchers and reallocations in MCSO
 - ✘ Evidence of substantial reallocation of expenditures between funds
 - ✘ Some are appropriate, others are questionable
 - + Require MCSO staff to sign timecards attesting to the accuracy of the data reported
 - + Institute a monthly retroactive line-item review – transfer expenditures not appropriate for Detention Fund to MCSO's General Fund
- ✘ Determine calculation method for estimating total misspent Detention Fund dollars
- ✘ Determine repayment methodology and timeframe

PROPOSED ACTION: CASH HANDLING

- ✘ Direct Policy and Compliance Counsel to develop new Countywide cash handling policy
- ✘ Direct OMB to work with MCSO to research contracting with vendor(s) to provide alternatives to current cash handling practices in the jails by January 2011
- ✘ Objectives:
 - + Eliminate cash handling by employees and related liability
 - + Streamline booking and release processes

PROPOSED ACTION: EXTRADITION POLICY

- ✘ By January 2011, direct OMB to work with County criminal justice agencies to:
 - + Develop County extradition policy
 - + Contract with vendor(s) that can provide cost-effective alternatives to current extradition practices
- ✘ Objectives:
 - + Reduce cost
 - + Reduce County liability
 - + Determine appropriate funding source

PROPOSED ACTION: TRAVEL

- ✘ Current County practice:
 - + Departments book own travel arrangements
 - + Decentralized approach may not allow County to take advantage of volume purchase discounts
 - + Compliance with Travel Policy is not routinely monitored by independent source
 - + Travel policy includes numerous exceptions for MCSO and MCAO
- ✘ Direct County Policy and Compliance Counsel to recommend other options for travel booking, volume discounts, auditing/tracking of policy compliance and Countywide policy revisions by January 2011

CONCLUSION

- ✘ There is a documented history of MCSO's lack of compliance with Board policy and laws related to:
 - + Restricted fund utilization
 - + Procurement
 - + Capital Purchase Freeze
 - + Travel
- ✘ OMB recommends corrective action to strengthen internal controls and ensure compliance